

Creative Scotland / Creative Scotland National Lottery Distribution Fund

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for Creative Scotland
March 2024

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Introduction

Summary of planned audit work

1. Esther Scoburgh has been appointed by the Auditor General for Scotland as the external auditor for the period from 2022/23 until 2026/27 for:

- Creative Scotland and its group.
- Creative Scotland National Lottery Distribution Fund.

2. The 2023/24 financial year is therefore the second of the five-year audit appointment.

3. This document summarises the work plan for both 2023/24 audits. The main elements of the audits include:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
- An audit opinion on regularity and other statutory information published with the financial statements in the annual report and accounts, including the Performance Report, Governance Statement, and the Remuneration and Staff Report.
- Consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.
- Provision of an Independent Auditor's Report expressing my opinions on the different elements of the annual report and accounts and an Annual Audit Report setting out conclusions on the wide scope areas.

Respective responsibilities of the auditor and Creative Scotland / Creative Scotland National Lottery Distribution Fund

4. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and Creative Scotland / Creative Scotland National Lottery Distribution Fund. Key responsibilities are summarised below.

Auditor responsibilities

5. The auditor's responsibilities are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

6. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at Creative Scotland. In doing this, we aim to support improvement and accountability.

Creative Scotland / Creative Scotland National Lottery Distribution Fund responsibilities

7. Creative Scotland / Creative Scotland National Lottery Distribution Fund is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements for audit that give a true and fair view. They are also required to produce other reports in the annual report and accounts in accordance with applicable requirements.

8. Creative Scotland / Creative Scotland National Lottery Distribution Fund has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation, and establishing effective arrangements for governance, propriety, and regularity that enable them to deliver their objectives.

Adding Value

9. We add value by:

- Tailoring audit work to the circumstances of Creative Scotland and Creative Scotland National Lottery Distribution Fund and the audit risks identified.
- Being constructive and forward looking.
- Providing independent conclusions.
- Attending meetings of the Audit and Risk Committee.
- Recommending and encouraging good practice.

10. In so doing, we will help promote improved standards of governance, better management and decision making, and more effective use of resources. The core audit team are detailed in [Appendix 1](#).

Annual report and accounts

Introduction

11. The annual report and accounts are an essential part of demonstrating Creative Scotland and Creative Scotland National Lottery Distribution Fund's stewardship of resources and its performance in the use of those resources.

12. We are required to perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

13. We focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

14. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We plan the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2023/24 audit

15. We assess materiality at different levels. The materiality values for Creative Scotland and its group and Creative Scotland National Lottery Distribution Fund are set out in [Exhibit 1](#).

Exhibit 1

2023/24 Materiality levels for Creative Scotland (CS) and its group, and the Creative Scotland National Lottery Distribution Fund (CSNLDF)

Materiality	CS	CS Group	CSNLDF
Planning materiality: This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the organisations'	£1.310 million	£1.325 million	£714,000

Materiality	CS	CS Group	CSNLDF
operations. For the year ended 31 March 2024, we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2022/23.			
Performance materiality: This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 70% of planning materiality.	£917,000	£928,000	£500,000
Reporting threshold (i.e. clearly trivial): We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£66,000	£67,000	£36,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

16. Our risk assessment draws on our cumulative knowledge of the organisations, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees, and a review of supporting information.

17. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management, and where relevant, report them to those charged with governance.

18. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. This is the risk which has the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, management's sources of assurance and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2023/24 Significant risk of material misstatement to the financial statements

Risk of material misstatement due to fraud caused by management override of controls:

As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.

Management's sources of assurance:

Due to the nature of this risk, assurances from management are not applicable in this instance.

Planned audit response:

- Assess the design and implementation of controls over journal entry processing.
- Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.
- Test journals at the year-end and post-closing entries and focus on significant risk areas.
- Consider the need to test journal entries and other adjustments throughout the year.
- Evaluate significant transactions outside the normal course of business.
- Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.
- Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.
- Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.
- Focussed testing of accounting accruals and prepayments.

Source: Audit Scotland

19. As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

20. We have rebutted this risk as the majority of funding is received from Scottish Government and National Lottery proceeds. This funding can be agreed to third party confirmations and is clearly communicated. In addition, the other income streams can be agreed to other confirmations such as various UK Arts Councils as well as the annual recharge to Creative Scotland National Lottery Distribution Fund. We have assessed that there is limited opportunity to manipulate the income recognised within the financial statements.

21. We also considered the risk of fraud over expenditure, as most public bodies are net spending bodies. The risk of fraud related to expenditure recognition may be greater than the risk relating to revenue recognition (in accordance with Practice Note 10: Audit of Financial Statements and Regularity

of Public Sector Bodies in the UK). We have rebutted the presumption that a material risk exists within expenditure. This is on the basis that:

- Most expenditure is for the awarding of grants and the main expenditure streams can be readily forecast based on a predictable pattern of spend and therefore are unlikely to result in material misstatements.
- There is limited incentive and opportunity for the manipulation of expenditure recognition in the financial statements.
- Evidence of external fraud from counter fraud services and the National Fraud Initiative does not indicate material risk.
- Experience in the sector, including a review of past misstatements, does not indicate material risk.

22. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Regularity

23. Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

24. We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements supplemented by additional testing for any irregular transactions, where necessary.

Group Consideration

25. As group auditors, we are required under ISA (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

26. Creative Scotland has a group which comprises one component entity, Shorestage Limited. Our planned audit approach for the component is informed by our assessment of risk at Shorestage Limited and our consideration of the size and nature of assets, liabilities, and transaction streams.

27. The audit of the financial information of Shorestage Limited is performed by Chiene and Tait LLP which we have assessed as not financially significant, our procedures will therefore be limited to agreement to component accounts, analytical procedures and review of the component auditor's annual report.

28. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the component on which to base our group audit opinion.

Wider Scope and Best Value

Introduction

29. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit, and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

30. In summary, the four wider scope areas are:

- **Financial management:** Having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability:** Consider whether the body is planning effectively to continue to deliver services and comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance:** Clarity of plans in place to deliver the vision, strategy, and priorities adopted by Creative Scotland. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes:** How the organisation demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope risks

31. We have identified significant risks in the wider scope areas set out in [Exhibit 3](#). This exhibit sets out the risks, management's sources of assurance for the risks, and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 3

2023/24 wider scope risks

Description of risk	Management's sources of assurance	Planned audit response
<p>Financial Sustainability</p> <p>Public bodies continue to operate in an increasingly complex and challenging environment where funding is reducing and there is less certainty about budgets across the short, medium and long term.</p> <p>Creative Scotland are facing risks and challenges to its financial sustainability in relation to the level of funding they are receiving and its ability to meet the demands of the groups that they support.</p> <p>There remains uncertainty around the timing of government funding streams.</p>	<p>5-year outlook prepared alongside yearly budget preparation.</p> <p>Plan for utilisation of reserves.</p> <p>Effective budget monitoring by finance team.</p> <p>Regular reporting to the Board and Finance and General Purpose Committee.</p> <p>Ongoing communication with Scottish Government sponsor division.</p>	<p>Review and assess the annual budget setting process.</p> <p>Review medium to long term financial planning.</p> <p>Report findings in our Annual Audit Report.</p>

Source: Audit Scotland

32. Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Auditor General for Scotland to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change.

Duty of Best Value

33. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within Creative Scotland.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

34. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

35. We will provide an Independent Auditor's Reports for Creative Scotland and Creative Scotland National Lottery Distribution Fund, the Scottish Parliament, and the Auditor General for Scotland setting out our opinions on the annual report and accounts.

36. We will provide Creative Scotland and the Auditor General for Scotland with one Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas. The Annual Audit Report covers both Creative Scotland and the Creative Scotland National Lottery Distribution Fund.

37. [Exhibit 4](#) outlines the target dates for our audit outputs and we aim to issue the independent auditor's report by 14 November 2024 for the Audit and Risk Committee. The Board will sign the accounts on 29 November 2024. Factors which have impacted on this include the need to deliver a quality audit and capacity.

Exhibit 4

2023/24 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date	Board Meeting
Annual Audit Plan	31 March 2024	21 March 2024	N/A
Independent Auditor's Report	31 October 2024	14 November 2024	29 November 2024
Annual Audit Report	31 October 2024	14 November 2024	N/A

Source: Audit Scotland

38. All outputs detailed in [Exhibit 4](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.

Timetable

39. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

40. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 5

2023/24 Proposed annual report and accounts timetable

Key stage	Provisional Date
Latest submission date for the receipt of the unaudited Annual Report and Accounts with complete working papers package	29 August 2024
Final Clearance meeting with Director of Finance	w/c 21 October 2024
Issue of draft Annual Audit Report to officer for review	w/c 28 October 2024
Agreement of audited and unsigned annual report and accounts	w/c 28 October 2024
Issue of draft Letter of Representation, proposed Independent Auditor's Reports and Annual Audit Report (Audit and Risk Committee)	7 November 2024
Audit and Risk Committee meeting to consider Independent Auditor's Reports, Annual Audit Report and audited annual report and accounts	14 November 2024
Board meeting to approve and sign audited Annual Report and Accounts	29 November 2024
Independent Auditor's Reports certified by appointed auditor	29 November 2024

Source: Audit Scotland

Audit fee

41. In determining the audit fee, we have taken account of the risk exposure of Creative Scotland and Creative Scotland National Lottery Distribution Fund and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The proposed audit fees for 2023/24 are:

- Creative Scotland and its group: £66,230 (22/23: £62,460)

- Creative Scotland National Lottery Distribution Fund: £34,600 (22/23: £32,630)

42. In setting the fee for 2023/24, we have assumed that Creative Scotland / Creative Scotland National Lottery Distribution Fund has effective governance arrangements and will prepare a comprehensive and accurate set of annual report and accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

43. It is the responsibility of Creative Scotland / Creative Scotland National Lottery Distribution Fund to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

44. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

45. Esther Scoburgh, your appointed auditor, is independent of Creative Scotland / Creative Scotland National Lottery Distribution Fund in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

46. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

47. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. We are not aware of any such relationships pertaining to the audit of Creative Scotland or Creative Scotland National Lottery Distribution Fund.

Audit Quality

48. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

49. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring

arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

50. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

51. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

52. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Appendix 1: Your audit team

The core audit team involved in the audit of Creative Scotland and Creative Scotland National Lottery Distribution Fund have significant experience in public sector audit.

Esther Scoburgh
Appointed Auditor (Senior Audit Manager)
escoburgh@audit-scotland.gov.uk

Esther has over 24 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities and central government bodies.

Laura Nelson
Senior Auditor (lead)
lnelson@audit-scotland.gov.uk

Laura has considerable experience in planning and delivering audits. Laura will manage the team and work alongside the Senior Audit Manager and Audit Director to deliver the audit.

David Fraser
Auditor
dfraser@audit-scotland.gov.uk

David has considerable experience in planning and delivering audits. David will be the day to day contact for the audit.

53. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

Creative Scotland / Creative Scotland National Lottery Distribution Fund

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

For the latest news follow us on social media or [subscribe to our email alerts.](#)



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